
Minutes

Board of Natural Resources Meeting

November 4, 2008
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

The Honorable Doug Sutherland, Commissioner of Public Lands
Bob Nichols, for the Honorable Christine Gregoire, Washington State Governor
The Honorable Terry Bergeson, Superintendent of Public Instruction
The Honorable Jon C. Kaino, Commissioner, Pacific County

BOARD MEMBERS ABSENT

Bruce Bare, Dean, University of Washington, College of Forest Resources
Daniel J. Bernardo, Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

CALL TO ORDER

Chair Sutherland called the meeting to order at 9:08 a.m. on November 4, 2008, in Room 172 of the Natural Resources Building.

APPROVAL OF MINUTES

MOTION: Bob Nichols moved to approve the October 7, 2008, Board of Natural Resources Meeting Minutes.

SECOND: Terry Bergeson seconded.

ACTION: Motion passed unanimously.

PUBLIC COMMENTS FOR AGENDA ACTION ITEMS

NONE

TIMBER SALES (Action Item)

Proposed Timber Sales for December 2008 (Handout 1)

Jon Tweedale, Assistant Division Manager, Product Sales & Leasing Division, greeted the Board and provided the timber sales presentation for the month of December. He reviewed the marketing update.

Mr. Tweedale explained that all sales sold last month; the average price was good for this time of year. The Department holds its richer sales for the spring and given the

current market he feels it is appropriate to have done so. He said the Department should see strength in the third fiscal quarter of next year based on the current numbers.

Mr. Kaino asked if sales were better than expected.

Mr. Tweedale replied that sales were better than expected and that the vast majority of the blowdown has been sold; there are remaining sales that were already queued up and pieces of them would have blown down as well which affects the mix. He said that given the deliberate scheduling of the lower quality sales plus the blowdown, he felt the numbers are respectable.

Ms. Bergeson asked if the sales he referred to with partial blowdown were sales approved by the Board, not assuming blowdown, and were being harvested when the storm hit.

Mr. Tweedale said that he was referring to sales that had been laid out prior to the storm and that pieces of those sales had blowdown, so the value would be affected depending on blowdown in the sales.

Ms. Bergeson asked if the value may be reduced because the buyers may or may not take the blowdown.

Mr. Tweedale said the value would be reduced because the bids would be reduced due to the risk of blowdown.

Chair Sutherland asked Mr. Tweedale about the overbid on the Appaloosa sale.

Mr. Tweedale replied that the Appaloosa sale was a unique sale. He talked about the diverse mix of timber that DNR offers as opposed to industrial producers; the industrial producers are producing small trees at short rotations. He explained that DNR has a mix of short-rotation timber that goes into 2x4's and stud material. DNR also offers this type of wood because it is on a "quasi" 60-year rotation and doesn't have a "rotation age" so it's a longer period of time and creates tighter "stands." The Department gets the niche players like Ingle Investors, which is a mill that cuts larger beams for the industrial market in California. Canyon Lumber is another specialty cut mill; these are smaller mills and specialize in higher value cuttings. He said that they are considered cutting mills as opposed to stud mills or 2x4 mills. He explained that the cutting mills produce a higher percentage of the higher-value products and that was the result of \$445/mbf on a high quality sale from Ingle Investors of Corvallis Oregon. The purchasers are coming from long distances to purchase DNR timber.

Chair Sutherland said that he was glad to see such a significant sale.

Mr. Tweedale said that some have asked why the Department is selling good wood in this type of market. He said that the beams and high grade have not dropped in price like 2x4's have and it is still a good market for high end.

Ms. Bergeson asked what they meant.

Mr. Tweedale explained that there is not as much supply of the bigger material because the industrial suppliers are not growing on a longer rotation so the Department has a little bit of supply and there is a whole lot more demand and purchasers are willing to pay a higher price.

October 2008 Sales Results:

- 7 sales offered & 7 sold; 30.7 mmbf offered & 30.7 mmbf sold; \$5.9 million minimum bid & \$7.8 million sold; \$193/mbf offered & \$253/mbf sold; average number of bidders = 2.5

Proposed December 2008 Board Sales:

- 16 sales at 67.8 mmbf; \$12.5 million minimum bid; average \$184/mbf.

Ms. Bergeson asked why there were more state forest board transfer sales and fewer common school sales.

Mr. Tweedale responded that this is how the sales are coming in; there was no deliberate planning involved.

There were no SEPA comments.

MOTION: Jon Kaino moved to approve the December 2008 timber sales.

SECOND: Terry Bergeson seconded.

ACTION: Motion passed unanimously.

Ms. Bergeson asked Mr. Tweedale what he thought the big picture looked like; is it getting worse or better.

Mr. Tweedale said he was just reading a number of articles and one economist said that he thought we were at the bottom of the housing market.

Mr. Kaino said that opinion will change eight times between now and next week.

Mr. Tweedale agreed, saying that some good things are happening. The curtailments that aren't healthy for the operating mills are healthy for the marketplace to absorb inventory which is the key right now; there is too much inventory on the market. Time will allow the market to return to a normal supply and demand balance.

LAND TRANSACTIONS

NONE

CHAIR REPORTS

Canoe Trees to the Tribes

Jed Herman, Product Sales and Leasing Division Manager, Rodney Cawston, Tribal Relations Manager, and John Viada, Olympic Region Manager, approached the Board to discuss the sale of canoe trees to the tribes. Mr. Herman explained that the discussion will be about the sale of large, structurally unique trees for the use of canoes by the tribes. He explained that the majority of the trees are located in the Olympic Region and that this issue has been discussed for about a year and a half. He said that this presentation was an update and that the Department may bring the issue before the Board for decision-making in the upcoming months.

Mr. Cawston, Tribal Relations Manager, introduced himself to the Board and provided the history behind the issue of selling canoe trees to the tribes. He recalled that in December 2006 he received a request from the Quileute tribe requesting a cedar tree to carve a canoe. The canoe the Tribe is currently using is close to one hundred years old. He explained that there has been a strong resurgence among the tribes along the Puget Sound to go back to their ancestry and their traditional ways. The tribes will all travel to a specified location where they hold their ceremonial events. This has brought about a strong resurgence of their culture and especially the canoe journey and the need for traditional canoes. Mr. Cawston explained that he is from the Colville reservation in eastern Washington, so this is the first he had heard of the canoe journey. He explained that since this is not in his cultural area he met with traditional carvers and the tribes to identify what their needs are. He learned that this request for a canoe tree was not the only one received by the Department. He said that he did meet with the staff and the tribal council of the Quileute tribe to learn more of what their specific needs were. He said that the perspectives are very different from one canoe family to the next; some believe they need to take a large standing tree, and others are looking at more pragmatic ways of acquiring a canoe tree, realizing that the conservation of old growth cedar is precious to everybody including to Indian people.

Mr. Cawston met with the Quileute canoe tree family and the tribal council to discuss how the request could be approached and what their needs actually were. Mr. Cawston, Mr. Viada and the Tribal members went out in the field and began looking at the different qualities of the tree that the Tribe is looking for to carve a canoe tree with. He mentioned that each Wednesday the Tribe holds a drum circle evening where the canoe family and their people come together to teach their young people their traditional songs and dances and this is a time where they are teaching the children about their canoe culture. He has talked to some of the young people and they realize that this is a traditional education and is an oral education for Indian people to pass down their knowledge from one generation to the next. With the request for the canoe tree comes the chance to pass down the knowledge of how to carve a canoe before the information is lost. Chris Morganroth, a member of the Quileute Tribal Council, is a traditional carver and wants to pass down the knowledge down; there is no way to do this without a hands-on effort.

Mr. Cawston explained that as he looked at this in a larger picture he thought about approaching the Affiliated Tribes of Northwest Indians (ATNI), an organization that is made up of tribal governments throughout the Pacific Northwest. The tribes have made requests for canoe trees at both the state and federal levels, so Mr. Cawston, Mr. Viada, and Gary Harris of the Forest Service met with ATNI. Several tribal leaders and tribal representatives attended the listening session. They learned that the tribes feel that harvesting a cedar tree is a gathering right under their treaty rights. Mr. Cawston said that the tribes realize that this could be a lengthy process and don't want to do that; they are interested in developing a process with DNR and other agencies to find workable solutions. At the conclusion of the listening session through a consensus of attendees they asked if we could bring this to the Culture and Elders Committee at ATNI for a resolution. He explained that a year ago he approached the Culture and Elders Committee. ATNI holds three conferences throughout the year; he attended last September in Quinalt and the next will be held in Yakima in February.

Mr. Cawston explained that he had also met with the Potlatch Fund, which is a grant giving organization based in Seattle that awards grants to tribal governments and groups. The recipients of these grants have to be led by a tribal group or affiliated with a tribal government or organization. He proposed to the Potlatch Fund to consider developing a fund to purchase trees for tribes for cultural purposes. They presented the proposal to their board and it was approved; they agreed to working toward developing this fund.

Mr. Cawston and the Potlatch Fund developed a concept paper and a resolution that were presented to the ATNI Culture and Elders Committee. With this resolution and the concept paper the tribes felt it was important to indicate that conservation was an important measure within the concept paper and the resolution. They felt that conservation measures should be applied where the tree was to be selected and also that the tribes traditional use of the entire tree be demonstrated by those that apply for funding from the Potlatch Fund to procure a tree. With these changes they were both approved, by resolution, by the full caucus.

Mr. Cawston went on to explain that once that resolution was approved they met with the tribes and Mr. Viada indicated that the Hoh and Makah tribes had pending requests for canoe trees. In the meantime the Potlatch Fund had already begun receiving donations to develop this fund. Initially the Department was working with the Quileute to develop a process here at DNR to work towards honoring the requests, but since Mr. Viada brought the other requests to our attention we have met with the other two tribes; all three tribes are interested in working with DNR to procure a tree for a canoe. The Hoh Tribe had already selected a tree, but that had fallen through. Al Vaughn from Olympic Region remembered the location of that tree so the Department met with the Tribe, went to the site and had the tree cruised. The tree was valued at \$8,000.00. The Department met with the Potlatch Fund to see if they had the funding to meet all three requests and they indicated that they did. The Department has met with all three tribes. The Hoh Tribe will be scheduling a time to go back and look at the tree they selected, the Quileute have identified a tree that they are interested in pursuing, and the Makah Tribe wanted to go out on their own to locate a tree. The Department will follow up with the Makah to see if they have made any progress.

Mr. Cawston explained that to date the Department is trying to work towards honoring those three requests. He indicated that he has been working with Jed Herman and John Viada to develop a process, and if this is possible what the Department needs to do from this point is to look at the sale of these individual trees to the tribes.

Mr. Herman explained that there are two major issues, one being the notion of purchasing a tree, but through Mr. Cawston's hard work the Department found a third party who is willing to broker the purchase of a tree. The second issue is that some of the policies that were put in place in 2004 are for protecting older, large trees not to sell them. This is an out-of-the-ordinary issue for the Department; an exception.

Chair Sutherland asked if these trees would be called older trees or old growth.

Mr. Herman said there is no other term.

Mr. Kaino asked if the diameter of the trees range from 6 to 8 feet.

Mr. Viada explained that the trees they are looking at are old growth cedar and are in the range of 500 to 800 years old.

Mr. Kaino asked what the diameter is.

Mr. Viada said the diameter varies. He explained that they learned from Chris Morganroth, the Quileute traditional carver that the diameter doesn't have to be as large as one would think because they can spread them open in the carving process. He said they are fairly large diameter trees.

Mr. Kaino said that in his timber falling experience that most of the old cedars of that size hollow themselves out.

Mr. Viada agreed, saying that this is part of what they look at. He explained that there were a couple of trees that they showed the tribes and that Chris Morganroth had found one he felt was the right tree. They still need to meet with the Hoh carver.

Mr. Kaino asked if they had bored the trees out.

Mr. Viada replied that they had not.

Ms. Bergeson asked if they had done anything to the trees yet.

Mr. Herman replied that they had not. He said that since this is an exception and the Department does not have a policy allowing it to conduct a regular type of sale and that this would be a direct sale; DNR has to be mindful of the old growth protection policies that are in place. Another issue is that the nature of the Settlement Agreement is to protect two different kinds of polygons of forests; one was old forest polygons and the other is structural habitat for

spotted owls. The trees that have been indicated to date are in one or both of those kinds of polygons. The Department will be meeting with the settlement partners to discuss these types of sales because this is not something it had in mind when it was structuring the agreements.

Ms. Bergeson said that she appreciated the time that Mr. Cawston provided to explain the differences among the tribes. She said there is also the environmental community on the conservation side, and the settlement partners came to mind since the Department has been through such an arduous process trying to adapt its silvicultural management to address the conservation issues of the future. She asked Mr. Cawston what the offset was that the tribes would bring forward to take the tree out of that area.

Mr. Cawston replied that the Department had discussed many different options with the tribes, but for one they wanted to look at the impact to the environment where the tree was taken. He said the tribes would take into consideration all the environmental factors as well because this will come down to those areas that Mr. Herman mentioned. He said he appreciated that the tribes wanted to make that change and that if it were be devastating to the area they would consider not taking the tree.

Ms. Bergeson asked Mr. Herman to talk about the upcoming meetings with the settlement partners.

Mr. Viada said that a few years ago the Department thought it was coming close to an agreement with the Hoh Tribe and had contacted the Federal Fish and Wildlife Department and actually received a letter that allowed for a cultural tree, in habitat, to be taken. He said they felt it was immeasurable in terms of habitat. He explained that the Department meets with one of the settlement partners on the conservation side on a quarterly basis to talk about upcoming timber sales and this potential issue was discussed. Their initial verbal reaction was that they felt it was a reasonable request and the right thing to do. He said he has not had any conversations with any of the other partners yet, and it is part of what needs to be worked through.

Ms. Bergeson said that this is something that needs to be worked through because the Department has worked through years of trying to come to a resolution of in terms of conservation and the forest products industry and all of our three circles. She said she thinks there is as much diversity within that group as there is among the tribes. She wants to make sure all parties are clear about this because it is very important. She said that she understood from Mr. Cawston's presentation that the tribes would also be looking at ways to use the entire tree for other culturally important ways so the entire structure will be used.

Mr. Cawston replied that if the tribes could work with the timing of when the tree is harvested they could strip the bark for basket weaving, use other parts to carve paddles, bowls or masks and other articles. They want to use the whole tree in traditional ways.

Mr. Nichols said that is not just the habitat values that are impacted but the old growth tree itself and he thought that Mr. Cawston had indicated that the tribes had considered that. He asked how many trees the tribes were requesting and over what time span.

Mr. Cawston replied that it would be hard to predict. For instance the Quileute have used their canoe for almost 100 years, they know it is coming to a point where it needs to be replaced. The initial thoughts were to work with these three tribes because they have had pending requests for some time, but anything beyond this will mean that the tribes would work with the Potlatch Fund in applying for the funding to procure a tree and whoever they are working with, whether it's DNR or the Forest Service in selecting a tree. He said that he has tried to keep the Forest Service and others involved and engaged in the process; they are all very interested in the outcome and will probably follow suit with DNR. He said that those would be other resources that the tribes can look to as well. He said that they also looked at other opportunities such a blowdown trees or trees that were taken for construction purposes and there were large enough trees that became available that had the suitable characteristics for a canoe or totem pole that the Department would try to provide some opportunity to the tribes for consideration of the use of those trees.

Mr. Nichols said that he understands that this is an exception to the rules but he would like to see a projection of how many trees are on the table. He also thought that the most likely outcome will be to take live trees as opposed to trees that are already down, and that he would like to know how that will be played out. The third issue he addressed was the other sources for the trees, not only on state lands but federal lands. He asked if tribal lands have any large standing trees.

Mr. Cawston replied that some tribes do have their own forests but most of the tribal reservations in Western Washington are relatively small and don't have a lot of timber resources. He mentioned a youth group in Seattle that took a tree that had been downed and had been harvested for the Daybreak Star Center in Seattle, where the Colville Tribe donated a lot of the old growth trees for the construction of that facility. The tree had been down for some time and they said when it was carved, it carved beautifully. He was interested in that because the tree had come from eastern Washington and he feels that there are opportunities there. He said they felt that the tree probably had a higher density because there isn't as much rainfall in eastern Washington. He said that the tribes are trying to explore all the options; some tribes feel that if they can find a suitable tree out in the forest that has been downed for whatever purpose that they would use that opportunity.

Mr. Kaino asked if they would be looking for trees that are logistically accessible and wouldn't require preparing a path to harvest it and get it out.

Mr. Viada said that the tree that the Hoh Tribe has identified is very close to some older existing roads, and the Quileute tree is about 50 feet away from a road. He said that they are close and the Department is looking at that. He said that the Makah Tribe was going to go in and look at an area where there is some cedar blowdown, but the Department hasn't heard anything back

from them. He said that there will have to be some disturbance to make a bed for the tree and all the things a feller has to do to prepare for that.

Mr. Kaino asked if the Department will bring in a feller or if the tribes will do that.

Mr. Viada replied that all those logistics will be the tribe's responsibility. The Potlatch Fund will be providing the money; the trust is only selling the tree, so the tribe will be responsible for harvesting and removing it.

Mr. Kaino asked if this will require Board approval.

Chair Sutherland stated that he thought it would require Board approval for two reasons. One, is that the Department is selling something so the Board has to recognize that the appraised value is appropriate and proper, and secondly that the sale fits within the policies that the Board has developed and as a result of those policies. Chair Sutherland said that the Department will develop a resolution for the Board's review that sets parameters for this type of transaction. The resolution will give staff authorization to continue working with the tribes in a more specific way so that it can identify a specific tree, determine its value and bring it to the Board for approval. He said he thinks that it is important for the Board to make an exception to the existing policies recognizing what the Department is doing, otherwise it's "flying by the seat of its pants" and he isn't willing to do that.

Mr. Kaino said that the exception to the policy needs to be made in such a way that the Board doesn't set precedence for something it doesn't want to. He said it sounds like all the Board members present are supportive but the devil is in the details.

Ms. Bergeson said that we need to make it clear that we set ground rules that address pending issues surrounding conservation and the types of trees that are offered and that we honor the settlement agreement that we have already reached and that each case will be reviewed on a case by case basis realizing that this is a unique circumstance that has a lot of boundaries around it in terms of what both the tribes and the Department want and need. She thinks this is an exciting issue to work on.

Chair Sutherland asked how many canoe tribes there are.

Mr. Cawston replied that there are 29 federally recognized tribes in the state; some tribes have more than one canoe family and others have only one. He doesn't have a count of how many there could be. He said that at the canoe journeys they have been having up to 90 canoes in attendance but those numbers include Oregon, Northern California, Alaska, Canada and even some Hawaiian canoes. Mr. Cawston took this opportunity to introduce Ken Gordon, the Executive Director of the Potlatch Fund.

Mr. Gordon greeted the Board. He explained that the Potlatch Fund is a Native American organization comprised of 15 board members; many of them are tribal leaders and most of his staff are Native Americans. The Potlatch fund has been involved in the canoe journeys for the

past four to five years. He said that most of those canoes are nearly one hundred years old and need to be placed in museums and cared for as important historical artifacts; the tribes need access to a resource.

Chair Sutherland asked Mr. Gordon how many of the current canoes are in their advanced stages.

Mr. Gordon replied that at least two of them and could possibly be more. He explained that there is a growing demand from young people to get involved in this and they don't necessarily have to have solid canoes but the thing that is holding them back is access to the resources. This is where the Potlatch Fund can help them. The Fund can provide the product owners who give it the money to enable the purchase of canoe trees and it gifts them to the tribes so they can maintain their sovereignty. He said that the product owners are excited about this idea because they see that the canoe journeys are part of an important cultural resource for Native Americans. It is also a way to put safer technology on the waterway; some of the older canoes aren't as seaworthy as some of the younger canoes. Mr. Gordon stated that the fund sees this as a win-win situation for everyone and that it has been a pleasure working with Mr. Cawston who has been very amenable to working with them. They have not started fundraising but in talking about this in a few sessions they have already raised \$20,000 to help purchase the trees for the tribes.

Ms. Bergeson said that one thing she is excited about is that she has worked with tribal elders to build a Native American literature series to contribute to growth in reading skills on the part of Native American children. She said that the tribes were willing to share their stories about canoes, and hunting and gathering and there is a series of primary readers that are now available as a resource. She told the story of a boy who stayed in at recess everyday to practice his reading so he could take the story of the canoe back to the Potlatch and the elders of his tribe. She said they are also working on senior projects to have options for students to bring to bear the math, the geometry and the carving; there are many things in terms of building a canoe that fit into work that students can do as part of their graduation project that could be very close to their hearts and a promotion of their culture.

Mr. Gordon said that they have talked to a Native American video organization about videotaping the process. Once they have the green light from everyone the whole process will be videotaped; the signing of the documents, the blessing of the tree, making sure all the proper cultural practices are recognized, felling the tree, transporting the tree to the carving site, and the entire carving process will all be filmed into an infinite resource.

Mr. Kaino said that he agreed with Mr. Nichols that the number of trees involved could be a big issue.

Ms. Bergeson said that it is great conservation if something lasts a hundred years.

Mr. Gordon said that the first \$20,000 has come fairly easily but with the timing of the political climate he fears that money is going to be harder to raise and that will be a limiting factor in how

much the Fund will be able to put into it. He said that the Fund plans to give out about \$200,000 in grants and he can see maybe \$20,000 to \$30,000 a year being the amount that they can afford to put into this project. He said they are not talking about a large number of trees, maybe 3 or 4 a year.

Ms. Bergeson said that the specific ceremony takes some time and care to implement and would be another conservation issue in terms of the trees that would be used.

Mr. Gordon replied the Potlatch Fund has the endorsement of the ATNI and part of the agreement is that it is required that the entire tree be used and that the tree is reinstated to meet the conservation requirements.

Mr. Nichols said that there was a sequential order before taking an individual tree established in the old growth policy and it seems that the formula should be applied to this exception. He said that this exception is that very policy, and how to handle this situation and mesh it with that policy is important to developing this process.

Mr. Herman said that he plans to put that information together for the Board to help them in their decision making.

Chair Sutherland said that he envisions having staff draft a recommendation for the Board to review and once they have concurrence on the draft the Department will meet with the other stakeholders to make sure they have an opportunity to comment before coming back with a final recommendation. He said he anticipates that happening some time early next year; if the Board is presented with a draft in December the final approval won't be able to happen until January or February.

Mr. Nichols thanked Chair Sutherland for presenting this to the Board. He said that it was obvious from the conversation that there are some concerns about how to make this workable, and this gives Board members a fair head start to think about these things.

Chair Sutherland said he wanted to make sure the Department did this right. He thanked Mr. Gordon for the partnership opportunity.

09-11 Trust Land Transfer Review (Handout 2)

Evert Challstedt greeted the Board and provided the 09-11 biennium Trust Land Transfer (TLT) proposals. He reminded the Board that he reviews the TLT package every other November. He began by reviewing the three main goals of the program which are:

1. Provide revenue for K-12 schools
2. Protect lands that have special ecological or social attributes
3. Divest of properties that are difficult to manage for revenue production and re-invest in good working forest lands

Mr. Challstedt explained some of the steps associated with the program. The Department identifies trust lands that are appropriate for the program, assembles them into a package and

submits the package to the legislature. The Department receives the appropriation and direction in the capitol budget bill at the end of the legislative session. This is a program that drives common schools so the lands must be common school trust lands. Those that aren't have to be converted through an exchange. He explained that each property is appraised and presented for Board approval. The exception would be the properties to be leased don't come before the Board, however if there is an intergrant exchange with the lease it does come before the Board. The land is transferred or leased to a public agency that has been pre-selected by the legislation. The timber value is deposited in the common school construction account and the land value is used to purchase other common school trust land to provide future revenues for the trust. The public agencies manage those transferred properties for the benefit of the public.

Mr. Challstedt explained a slide that reviewed the flow of money as the property is purchased and goes to the public agency. The timber value is treated as though it were a timber sale; the Department does not get a percentage, but rather all of the revenue goes into the common school construction account and the land value goes to the replacement account. He reviewed the history of the program. Over the years \$732 million has gone into the program. Over 80% of the funds go to common schools and 17% to buy and replace lands that have been transferred. The administrative costs are low at only 2%.

Mr. Challstedt stated that the request legislation this year includes an appropriation of \$95 million; there are 25 fee transfer properties on the list and nine 30-year leases. The properties will receive deed restrictions for state parks, fish and wildlife habitat, and NAP/NRCA for open space and recreation purposes. The group of recipients is diverse and includes county governments, park districts, and state agencies.

Mr. Challstedt summarized his presentation by reviewing a map and list of the property locations across the state. He noted that the maps are posted on an internet site and can be downloaded.

Mr. Nichols asked if the administrative fee is locked in by statute.

Mr. Challstedt replied that it is not locked in by statute; it comes off the top of the appropriation. Those are the direct costs to do the transfer. There are a lot of hidden costs within the Department that don't show up such as payroll overloading and support staff services.

Ms. Bergeson asked about the Green River College parcel.

Mr. Challstedt replied that it is immediately adjacent to the campus. The campus sits on a large parcel of land that is wooded. He understands that they currently use it for their forestry and botany classes. He explained that the parcel is not available for the Department to harvest; some of it sits on unstable slopes, so it makes sense that the trust divests of this property and reinvests in property it can utilize.

Mr. Nichols asked if the list of properties was in rank order.

Mr. Challstedt answered that it is in timber-to-land ratio; the highest timber valued properties are at the top of the list.

Mr. Nichols asked if the Department starts at the top and works its way down the list.

Mr. Challstedt replied that the Department tries to appraise the high elevation properties first because there is only a season and a half in the biennium to get the appraisals done; that is a narrow window of time to cruise and appraise them.

Mr. Kaino said that from the county perspective there are 22,000 acres of timber land that are no longer going to be in production. He said that the common school construction account benefits from this but they don't benefit anymore than if the timber was harvested and was back in cycle again. He said he has some concerns and every year if the vast majority of acres is going into preservation status as NRCA's and NAP's the amount of tax revenues to the counties is fully restricted. He was happy to see that there were none in Pacific County. He said that this program costs counties money; it costs rural timber counties a significant amount of money and the potential for long-term impacts are even greater. He explained that counties get money from timber in three ways: 1) private forest excise tax, 2) public forest excise tax, and 3) revenue from the forest board. Each time timber is taken from one of those three categories and moved into preservation status it has an impact on county revenues. He said he is concerned and thinks there are valid uses of the program for sites that are no longer beneficial but he thinks that counties take the brunt of it. He said that one of the things that this program could do is to address those lands that impact county revenues, he has been told that can't be done, but he doesn't believe that.

Ms. Bergeson asked Mr. Kaino what he meant by that.

Mr. Kaino replied those counties like Wahkiakum, Skamania and Pacific are the ones that will be impacted significantly by marbled murrelet and we don't know what that is yet. What we'll hear is how we can negate an impact when we don't know what it is yet. There is no doubt that impact is going to be significant to some counties and there is no one here from the scientific community that will say otherwise. He asked why those lands aren't looked at; they are off base because of their habitat and are impacting the county's revenues. He suggested moving those lands into some type of TLT funded through this program and exchanging them for lands that can be harvested. For example, counties like Wahkiakum whose revenues will be impacted by 45% to 50% by the marbled murrelet. He said he knows it's not as easy as his suggestion and Ms. Bunning has already explained to him why it can't be done the way he'd like to see it done but he feels that if there's a will there's a way and he would like to see that exercised as he advocates on behalf of the counties.

Mr. Challstedt said that the Department is doing that to some extent and as he looks down the list many of the properties have older growth diverse type habitat and are in deferred harvest status with the HCP. For example, the first three properties on the list are impacted by spotted owl and will not be harvested any time soon. This does provide an opportunity for the trust to get income from timber and still retain credit for the habitat.

Mr. Kaino said that it seems to him that it would be easy to go out and look at this 01 land from Wahkiakum County and trade it for common school. He has been told that one of the reasons that it's not possible is because these lands are encumbered by murrelett and therefore to get fair value is difficult based on the encumbrances of the timber. He said this program negatively impacts county revenues and that the program should step in where it can benefit county revenue and this is one way it could do that. He knows there are hurdles and issues that have to be addressed to do this. If we rely on a plan or proposal for a complete separate program for these lands outside this program it is not going to get funded in the legislature and the smaller counties will go out of business. He said that he can't overstate the significance of the impact that this program has on counties and one way to pay that back is to address these specific issues and he would like to see more effort made on that behalf.

Mr. Kaino said that it has to be transferred into common school to be transferred into the program. If it's not common school it's traded with another trust so it is common school, then it goes into preservation. Then we get the money for land replacement but where does the land get replaced from. When the common school ground goes into this program and into preservation how many acres has to be found to be replaced; in other words, the Department moves the property into preservation and now they have to go out and find private land to replace the common school land to keep the trust whole. The acres are purchased from private forest and it happens in the counties that have the most private forest land: Pacific, Wahkiakum and Grays Harbor. When the land is purchased and goes from private land to common school the first thing the county loses is property, the second loss is a portion of the timber tax so the county tax base is shrunk.

Ms. Bunning approached the Board to clarify that the Department is working on a proposal that would help Wahkiakum and Skamania counties with the revenue problems they are facing. The Department is working with county representatives but it will take a little bit of legislative work. Ms. Bunning said that it is the capacity of the legislature to provide bond funds that will make it work whether it's a total for both the counties and the common school trust, or more than what has been laid out to accommodate the counties or some other number. It may not happen in one session but she said she feels it is possible.

Mr. Challstedt said that the compensating tax helps to make up for the revenue that is lost to the counties and it almost becomes revenue neutral if the compensating tax is invested.

Mr. Kaino said the compensation tax isn't paid when the property goes into an NAP.

Mr. Challstedt replied that when any governing agency buys any land that has been in the designated forest land category or open space, the back taxes become due for the last ten years and it is a lump sum of money; to be competitive, the Department pays it and it is an additional lump sum payment to the county any time forest land is purchased.

Mr. Nichols asked if that is a one time cost that is factored into the purchase

Mr. Challstedt said that was correct.

Mr. Kaino said the truth of it is that there is an exemption for those properties in the NAP or NRCA's and the compensating tax is not paid.

Mr. Challstedt replied that the Department is not buying NAP or NRCA lands; rather replacement forest land properties to be managed for timber production for the trusts and the compensating tax is definitely factored in and is a big cost to the Department to purchase those lands.

Mr. Kaino said that when the Department buys private lands as NAP or NRCA the compensating tax is not paid; it's exempt from the compensating tax. The compensating tax only addresses the issue of property tax which is 1/5 to 1/10 of what the county would receive in timber harvest tax which is not compensated for in any way, shape, or form.

Mr. Challstedt said that there is some downfall but it isn't that great when the compensating tax is factored in.

Mr. Kaino said he disagrees with that statement.

Ms. Bergeson said that the lands he is describing are already off bounds for environmental issues so they aren't getting the timber revenues from the timber.

Mr. Kaino said that there are ways for example if you took Wahkiakum county's marbled murrelet habitat which is at the top of the list and traded the 01 for 03, and then traded the 03 into the program giving the county 03 land then they could benefit monetarily from the program.

PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST

Bob Dick of the American Forest Resource Council approached the Board. First he addressed the question that Ms. Bergeson asked Mr. Tweedale about the timber sale where the final bid was double the appraised bid. He explained that appraising a timber sale is as much of an art as it is a mathematical exercise. The first competitor is you; you look at it and think how much I want that timber, what I am going to do with it and what can I get for it. After you make that determination you figure how you are going to buy that timber sale for the least amount that your outside competitor is going to bid for it. He was recently at a federal timber sale where the winning bidder paid four times the appraised value and two times the next highest bidder value. He explained that this is the way it works and lot goes into a timber sale that is not seen here.

Mr. Dick moved on to address the Dabob Bay expansion. He provided a map of the Washington State private forests at risk of conversion. He explained that the map shows conversion to a non-forestry use but it doesn't show conversion of lands that are taken out for murrelett, owls or wilderness; that would be a very different map. He said that working forest land on Washington State is under an intense amount of pressure. The AFRC does support the NAP/NRCA program and recognizes that it does have use, but the state is losing its lowland working forests from a number of increasing fronts; the state lands are increasingly encumbered

along those same lines. He said that there are lands included in the Dabob Bay expansion that have no business being included in that removal. He has walked the East Fork Tarboo timber sale and feels that there is no way that land is going to affect Dabob Bay, yet it is one of the lands that are included. He said that there have been discussions about lands that should be included in NAP's and NRCA's, but there have not been discussions about how much land is needed to protect the value that we are trying to protect. In the case of Dabob Bay it is about sediment, not about protecting someone's view out their front window which is what brought the issue up in the first place. They needed a hook other than someone's view and they picked sediment into the bay, which is a legitimate topic but Dabob Bay would not exist if sediment were not going into that bay at a regular interval. His plea is to recognize when creating NAP's and NRCA's to only include what needs to be included, and minimize the amount of productive timber land that is taken out of production.

Mr. Dick also addressed the Lake Whatcom reconveyance. He said that they have taken a hard look at the reconveyance and has asked the Whatcom County Council to determine why they are doing this, what the impacts are going to be, what the unintended consequences are going to be. To this point they have had no response from the County and they are reviewing their options which may include legal action. He said this is 8400 acres of county trust land that is going to be taken out of production if the reconveyance goes forward. They want to make sure that due diligence has been taken by the county before they take on this timber land and make a park out of it. If the reconveyance comes to the Board, he wants to say that Department has done an excellent job of creating a package that makes sense; if the lands are reconveyed on the other hand, this is 8400 acres of working forest that is proposed to be made into a park and how much of that can we afford. If you look at the map we are not that far away of being in short of working forests.

Chair Sutherland asked Mr. Dick if he was aware that the Whatcom County Council had voted in 4 to 3 favor of the reconveyance.

Mr. Dick indicated that he was acutely aware and that is the reason he had addressed the Board.

Chair Sutherland asked Mr. Dick if he was aware that the Dabob Bay expansion was a work in progress.

Mr. Dick said that he was aware.

Chair Sutherland said that the Department has received some information that has caused additional review of how the county ordinances can affect what can be done with those lands if they are identified, even if they are still in private hands. The Department is still working on that issue.

Mr. Dick commented that Department staff has done a great job and he has enjoyed working with them,

Bill Robinson from the Nature Conservancy (TNC) approached the Board to comment on the TLT proposal. He said that the TNC is in support of the TLT program and he has often described it as the next best thing to compounded interest, where everybody benefits from the land for conservation, the schools get fully reimbursed, yet the replacement land is land that has more protection value and revenue production for the school than the land that is being placed into conservation status. It is a well understood and recognized program. He said that he thought Mr. Kaino does raise a good issue about the impact on local governments and the Department could do a better job of explaining how that all works out. When the state does acquire private land they do pay the compensating tax; some economists have looked at this and show a long-term benefit if it is invested by the county it generates more revenue than the property tax would, if that money is spent immediately it's gone. The other part is that once land is put into conservation status the state pays property tax on those lands at the same rate a private property owner would; which is a benefit to the counties because if it is put into trust land status there is no property tax paid. He said he realizes that property taxes are not the biggest revenues off of forest lands to counties, it's usually the harvest tax but the compensating tax pays compensation. He said he thinks that if the staff sat down with each of the Commissioners and the Board members and explained to them that it really is in the best interest of the state to do this, in large part, because a majority of those lands are lands that aren't going to be harvested anyway, which is no benefit to the trust and the county won't receive that excise tax, so this is a net gain for everyone involved besides from the conservation values. He said it is a great program with legislative support and is well understood and it is a win for everyone involved. He also said that the fiscal situation is difficult and that the Department needs to be able to show the benefits to the county in that the local taxing, fire and school districts won't be harmed by the transfers. He used Dabob Bay as an example; there are the ecological values which have been explained very well; the expanded boundaries are a benefit to Dabob Bay. The peripheral issues such as the financial impact on the local community because of local zoning regulations need to be better explained.

Ms. Bergeson said that the key thing is to keep the good programs strong and to look at how we can help the poorer rural counties go through the difficult economic times we are experiencing. The larger economic context is the scary thing and how do we look at the larger context of getting through this together.

Mr. Robinson said that when the program was developed there wasn't much consideration about changing the tax sources or revenue distribution; it was all about either land use or land values. The state did have a program of distributing sales tax to counties that generate less but that has gone away. He said that as economics and finances become more important, those need to be a bigger factor in these decisions. There needs to be a better understanding both from the state, local, and federal sides and those financial considerations need to be a part of those discussions.

Mr. Kaino said that he doesn't know what economists conducted the studies that Mr. Robinson looked at but he has been working on the compensating tax issue for over 15 years; the money Pacific County gets from compensating tax over the long run, in no way keeps the county whole as if that land had stayed in timber production. He said it does not come close. He said that

there may be some areas that it does. He feels that to state that Pacific County and the counties in Southwest Washington are made whole by the compensating tax is not a true statement. He also addressed the property tax issue saying that he assumed that Mr. Robinson was talking about the Payment in Lieu of Taxes (PILT) program; that remains to be seen because no counties have received money yet and we'll have to see if that happens.

Ms. Bergeson asked what the PILT program was.

Mr. Kaino explained that the PILT program is recent legislation, but has not been funded yet so no counties have received any tax revenue from the program. He said that Mr. Robinson implied that counties receive property taxes from the program; Mr. Kaino said that when the legislature actually funds the program and the counties actually receive money from it then he would agree with that statement. He said that the PILT program does not keep the counties whole but the legislation passed to provide a property tax based on the value of open space and there is negotiating taking place right now that looks like it is going to end up a percentage fair market value which is going to be probably 50% or less. Implying that the counties are made whole that way is also false; Mr. Kaino said that his point is that he doesn't think we need to be on opposite sides of this issue and he respects numerous things that the Nature Conservancy does; they have a big presence in Pacific County and he has worked with a lot of people with TNC in the Ellsworth Creek area and there are some benefits that are provided by the work that is being done, but he does think that there has to be a recognition of the fact that the compensating tax more than makes up for the counties' lost revenues because they are getting property taxes. The fact is that those are not true statements and when it is implied that the counties are complaining just to be complaining is not the case. Mr. Kaino said that the counties are losing money and the statements that Mr. Robinson just made are not true. He said that the county is not getting compensated. Mr. Kaino said that under Mr. Robinson's theory the whole county should be turned into an NAP; the money put it in the bank, and the county would never have to worry about money again.

Mr. Robinson said he is not suggesting that at all but he feels that there needs to be a clear display of what the payments really are, other than the programs the logical benefits, and money to the trusts there needs to be some consideration of the counties that need to be well understood and displayed for everybody to be involved in this. He said that counties need to apply for the PILT payments they don't require an appropriation, it is a direct transfer out of the state treasurer. Pacific County needs to apply for that.

Mr. Kaino asked if they were clear that the counties are not fully compensated but they have options.

Mr. Robinson said that is part of the information that everyone needs to have and he is willing to work with Mr. Kaino on the issue to try to identify workable solutions.

Chair Sutherland brought the Board's attention to the map that Mr. Dick provided them during his comments. He said that this map was produced by Luke Broadpierce, Andrew Crick and Alicia Robbins out of the University of Washington. He said that last week he was at a forum


where Luke and his associates continued to display mapping information that was incredibly informative. He said that he wants them to come to the Board to show the types of information they have been able to develop; he also wants them to meet with the Department's mapping staff to see how they can integrate their work.

Meeting adjourned at 10:47 a.m.

Approved this 2nd day of January, 2008



Doug Sutherland, Commissioner of Public Lands



Bob Nichols for Governor Christine Gregoire



Terry Bergeson, Superintendent of Public Instruction



Jon C. Kaino, Commissioner, Pacific County

EXCUSED 

Bruce Bare, Dean, University of Washington

EXCUSED

Daniel J. Bernardo, Dean, Washington State University

Attest:



Bonita Hill, Board Coordinator